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Europe's Bank and Europe's Citizens: Accountability, Transparency – Legitimacy?¹

Christel Koop (King's College London) & Christine Reh (Hertie School of Governance)

Since the eurozone crisis, critique of the European Central Bank (ECB) has centred on the Bank's lack of acceptance by Europe's citizens. One prominent strand of the debate argues that such acceptance can be enhanced by ensuring higher levels of compliance with the democratic standards of accountability and transparency. This article critically assesses this 'standards-support nexus' and its underlying assumptions. We suggest that three conditions need to be fulfilled for the argument to hold: 1) citizens are aware of the ECB and its design, 2) citizens prioritise democratic standards over alternative motivations for acceptance, and 3) citizens are able to differentiate between the ECB and the EU's wider multi-level system. Drawing from the established literature on support for European integration and trust in the ECB and from descriptive Eurobarometer data, we conclude that these three conditions are unlikely to bear out empirically. Moreover, increasing the ECB's accountability and transparency in times of crisis and heightened politicisation could adversely affect the Bank's policy-performance and public image. Hence, while not questioning the normative desirability of accountability and transparency, we caution against assuming too easily that such democratic standards alone will enhance citizen support, and against assuming that they come without trade-offs.

1. Introduction

A newcomer to the European Union (EU)'s institutional architecture, the European Central Bank (ECB) was established in a challenging political context. In the wake of the 1993 Maastricht Treaty, the legitimacy of European integration became more tenuous.² Public support began to drop from the heights of the early 1990s, and referendums over accession, ratification and integration were closely fought and, in some cases, lost. After its creation in 1998, the ECB, too, was subjected to criticism. Mandated to run the EU's monetary policy with a focus on price stability, the Bank was equipped with an exceptional degree of statutory independence. In the wider context of the 'great moderation', the Bank was designed as a technocratic and insulated institution, shielded from electoral cycles and (national) political pressures. Furthermore, the ECB not only epitomised delegated technocratic decision-making; as *Europe's Bank* it added an

¹ An earlier version of the argument benefited from feedback received at the Maastricht University workshop on "The European Central Bank's Accountability in a Multilevel European Order" (Brussels, May 2018). We are also grateful to the anonymous reviewers and the editors of this special issue as well as to Aneta Spendzharova and Mark Dawson for their helpful comments. We would like to thank Michele Scotto di Vettimo and Mirjam Schlechter for their assistance.

² L. Hooghe & G. Marks, 'A postfunctionalist theory of European integration: From permissive consensus to constraining dissensus', 39 *British Journal of Political Science* (2009), p. 1-23.

extra layer of monetary governance. The role of the eurozone's 19 chief central bankers in its Governing Council notwithstanding, the Bank is further removed from politics than national central banks with their more 'intuitive' anchoring in domestic discourse, socio-economic context and established norms of governance.³

Though criticised for its lack of democratic legitimacy, the ECB enjoyed sound levels of trust in its early years. Yet, the onset of global and eurozone financial trouble brought the supposedly shielded and technocratic institution to the forefront of a politicised debate about the adequate response to the crisis and the future of the eurozone. As Figure 1 shows, levels of public trust in the Bank began to drop considerably: up to the eurozone crisis, citizens who trusted the ECB outnumbered those who did not; yet, trust declined between 2008 and 2014, and in 2011 lack of trust even surpassed trust. In this paper, we illustrate support for the ECB using public trust measures. To be sure, trust in a public institution is not synonymous with support for or the legitimacy of that institution, but trust serves as a proxy. As 'a set of expectations held by one party that another party or parties will behave in an appropriate manner with regard to a specific issue'⁴ trust is, indeed, a pre-condition for accepting decisions taken in a politically insulated, supranational setting.⁵

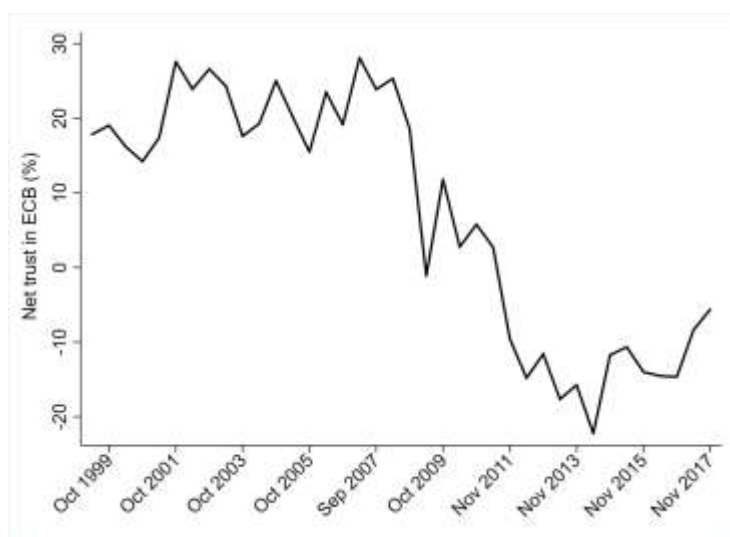


Figure 1: Net levels of trust in the European Central Bank

Source: Eurobarometer. Net trust in the ECB refers to the percentage of respondents who 'tend to trust' minus the percentage who 'tend not to trust' the ECB.

³ A. Verdun & T. Christiansen, 'Policy-Making, Institution-Building and European Monetary Union: Dilemmas of Legitimizing European Integration', in C. Crouch (ed.), *After the Euro: Shaping Institutions for Governance in the Wake of European Monetary Union* (Oxford University Press, 2000), p. 162-178.

⁴ H. Farrell & J. Knight, 'Trust, institutions, and institutional change: Industrial districts and Social Capital hypothesis', 31 *Politics & Society* (2003), p. 541.

⁵ M. Ehrmann, M. Soudan & L. Stracca, 'Explaining European Union citizens' trust in the European Central Bank in normal and crisis times', 115 *Scandinavian Journal of Economics* (2013), p. 783.

Our paper zooms in on the critique of the Bank's institutional design and its lack of 'accountability' and 'transparency'. A strand of this critique explicitly argues that the Bank's legitimacy problem stems from 'non-compliance' with these two ideal standards of democratic governance. We critically interrogate this argument and its underlying assumptions. In doing so, we do *not* reflect on the optimal type, extent or effectiveness of accountability and transparency, nor do we analyse empirically whether procedural reform *does* improve support of the ECB. Instead, we aim to make explicit—and critique—the assumptions that underlie an alleged nexus between the Bank's standards of governance and its legitimacy in the eyes of Europe's citizens.

This discussion speaks to three fundamental questions in the study and politics of the EU: 1) Why should citizens accept decisions as binding when these are taken by insulated policy-makers at the supranational level? 2) How can an institution respond when citizens' trust begins to drop? 3) What conditions must be in place for the institution's response to stand a chance of working?

We use the term 'legitimacy' in its broadest, empirical meaning: 'acceptance', understood as the latent or manifest support that citizens grant a political order and the power it exerts.⁶ Such support can draw from a variety of motivations—ranging from the moral to the prudential, the normative to the self-interested. Our focus is on the ECB as a particular type of institution: insulated and established through an exceptionally long chain of delegation. Unlike representative institutions, the Bank cannot derive its legitimacy from 'thick' motivations: citizens' diffuse or non-calculative sense of belonging, and democratic input of express consent (or sanction) in an electoral process.⁷ Instead, citizens' (lack of) support for the Bank's authority will need to feed on one, or more, of three classic sources of legitimacy: the legality of the Bank's rule and decisions; the self-interest behind accepting the Bank's rule and decisions; and the justifiability of the Bank's rule and decisions by reference to a set of shared values.⁸ Any evaluation of the Bank's legitimacy faces the additional challenge of the EU's multi-level nature.⁹

The proposition behind the argument linking standards to the Bank's acceptance rests predominantly on the third, value-based motivation. Indeed, when debating the ECB's legitimacy challenge, many observers focus on accountability and transparency as procedural standards at the core of modern governance. Accountability refers to the mandatory or voluntary provision of information on and justification of decisions and activities to other actors

⁶ M. Weber, *Economy and Society: An Outline of Interpretive Sociology*, G. Roth & C. Wittich (eds.) (University of California Press, 1968); M.C. Suchman, 'Managing legitimacy: Strategic and institutional approaches', 20 *Academy of Management Review* (1995), p. 571-610.

⁷ F.W. Scharpf, *Governing in Europe: Effective and Democratic?* (Oxford University Press, 1999).

⁸ D. Beetham, *The Legitimation of Power* (Macmillan, 1991), p.15.

⁹ F.W. Scharpf, 'Legitimacy in the multilevel European polity', 1 *European Political Science Review* (2009), p. 173-204; N. Bolleyer & C. Reh, 'EU legitimacy revisited: The normative foundations of a multilevel polity', 19 *Journal of European Public Policy* (2012), p. 472-490.

(account-holders), which may be followed by sanctions or rewards.¹⁰ Aiming to institutionalise and reinforce 'the normative orientation of office holders toward the public interest',¹¹ accountability is widely seen as essential to democratic governance.¹² Transparency, in turn, is a pre-condition for holding an actor to account, but refers to the degree to which information about an actor's conduct and decision-making is communicated, disclosed or accessible to the 'outside world'.¹³

Accountability and transparency are central in the debate about the ECB's legitimacy. Here, we engage with a particular line of argumentation that not only advocates these standards as normatively desirable *tout court*, but proposes a direct link between an institution's procedural standards and acceptance. The ECB itself increasingly falls within this 'camp'. We refer to this argument as the 'standards-support nexus'. Its proponents suggest that the ECB's 'non-compliance' and extensive insulation lie at the core of the Bank's legitimacy problems; therefore, strengthening accountability to representative democratic institutions, and making decisions and operations more transparent, should bolster legitimacy. Somewhat stylised, the diagnosis—and, by corollary, the 'fix'—assumes that standards of good governance hold the key to an institution's approval: reinforce these standards, and legitimacy will improve alongside.

We suggest that the standards-support nexus hinges on three assumptions: 1) citizens must be aware of the ECB's design and of changes to its procedural governance; 2) citizens must evaluate the ECB's legitimacy primarily based on procedural democratic standards; 3) citizens must be able to differentiate between the ECB and the wider multi-level system of which the institution is part. We propose that these assumptions are, at minimum, overly demanding; at maximum, the nexus may work in the opposite direction, with reformed procedural standards risking to actually *decrease* the Bank's acceptance. In a nutshell, we propose that accountability and transparency do fulfil vital normative and constitutional functions in modern democracy; however, we should not rest all hope on these standards to bring about citizens' support for an expertocratic institution that operates in a policy area and a political system undergoing a deep crisis of both performance and acceptance.

The next section introduces the literature that links the ECB's (imperfect) compliance with standards of accountability and transparency to citizens' (lack of) support. Section 3 makes explicit and critiques the three assumptions underlying the standards-support nexus. Section 4

¹⁰ M. Bovens, 'Analysing and assessing accountability: A conceptual framework', 13 *European Law Journal* (2007), p. 447-468.

¹¹ F.W. Scharpf, *Governing in Europe: Effective and Democratic?*, p. 14.

¹² M.J. Dubnick, 'Accountability as a cultural keyword', in M. Bovens, R.E. Goodin & T. Schillemans (eds.), *The Oxford Handbook of Public Accountability* (Oxford University Press, 2014).

¹³ See M. Božina Beroš, 'ECB's accountability within the SSM framework: Mind the (transparency) Gap', in this issue.

acknowledges the crucial importance of transparency and accountability for public institutions in modern democratic governance but discusses the potential trade-offs involved. The last section concludes and identifies future research avenues.

2. Standards and support: The debate so far

Since its inception in the Maastricht Treaty the ECB has been criticised for its lack of transparency and accountability.¹⁴ Research in the late 1990s pointed out that the ECB was more independent than national central banks¹⁵, while being subject to lower degrees of accountability.¹⁶ Moreover, the Bank's transparency was criticised as too supply-controlled.¹⁷ The ECB's design was justified by reference to the conventional argument that central bank independence enhances price stability as well as the EU-specific concern that a lack of independence might lead the Bank to pursue national interests rather than the interests of the eurozone as a whole. Yet, this design also raised the question of whether enough had been done to introduce provisions for transparency and non-electoral accountability, given that these are key instruments to evaluate decision-making externally and to limit the arbitrary exercise of power.¹⁸

In response, scholars—alongside voices in politics and the media—advocated more accountability and transparency. For instance, it was proposed to empower the European Parliament (EP) as account-holder, or to create an additional account-holding body.¹⁹ The ECB was also encouraged to voluntarily publish the Governing Council's minutes and voting records.²⁰

The critique intensified after the eurozone crisis. To respond to the crisis, the Bank relied on unconventional and controversial monetary measures such as quantitative easing and Outright

¹⁴ But for more optimistic assessments, see O. Issing, 'The Eurosystem: Transparent and accountable or 'Willem in Euroland'', 37 *Journal of Common Market Studies* (1999), p. 503-519; L. Bini Smaghi & D. Gros, 'Is the ECB sufficiently accountable and transparent?' *European Network of Economic Policy Research Institutes (ENEPRI) Working Paper 7* (2001), p. 1-24.

¹⁵ R. Elgie, 21 *West European Politics* (1998), p. 53-76; K. McNamara, 'Banking on legitimacy: The ECB and the euro zone crisis', 13 *Georgetown Journal of International Affairs* (2012), p. 146.

¹⁶ F. Amtenbrink, *The Democratic Accountability of Central Banks: A Comparative Study of the European Central Bank* (Hart, 1999), p. 363; W.H. Buiter, 'Alice in Euroland', 37 *Journal of Common Market Studies* (1999), p. 185-198; J. de Haan, 'The European Central Bank: Independence, accountability and strategy: A review', 93 *Public Choice* (1997), p. 395-426.

¹⁷ D. Naurin, 'The European Central Bank: Independent and accountable?', in S. Gustavsson, C. Karlsson & T. Persson (eds.), *The Illusion of Accountability in the European Union* (Routledge, 2009), p. 140.

¹⁸ D. Curtin, 23 *European Law Journal* (2017), p. 39; C. Gandrud & M. Hallerberg, 'Supervisory transparency in the European banking union', Bruegel Policy Contribution, No. 2014/01 (2014).

¹⁹ R. Elgie, 21 *West European Politics* (1998), p. 67.

²⁰ W.H. Buiter, 37 *Journal of Common Market Studies* (1999), p. 206-207.

Monetary Transactions (OMT).²¹ Moreover, following intense political debate, the Bank's mandate was considerably expanded and now included financial stability and a supervisory role. Yet, guaranteeing price stability is not the same as working towards financial stability, and a broader mandate offered the ECB greater policy discretion, in an increasingly politicised context.²² Due to its expanded mandate, and its enlarged monetary and supervisory toolkit, the Bank's decisions became 'inescapably more distributive and hence subject to increased political contestation'.²³ Meanwhile, the Bank and its far-reaching independence became more visible across the EU's multi-level system.

Observers have stressed that these post-crisis changes further enhanced the need for transparency vis-à-vis the wider public and for accountability to majoritarian institutions, in particular to the EP.²⁴ Such concerns found their way even into the design of the European Banking Union, which includes more provisions for ECB accountability than the Bank's monetary framework.²⁵ The concerns were also, partially, acknowledged by the Bank itself, which started publishing non-attributed accounts of Governing Council meetings²⁶, and intensified its press conferences and interactions with the EP.²⁷

One strand of this debate focuses on transparency and accountability as ideal standards of democratic governance to which the ECB should aspire on normative grounds. Other contributions go beyond the normative argument, linking the Bank's (lacking) transparency and accountability to its (low levels of) legitimacy—without, however, developing a clear causal mechanism linking design to support. For instance, Berman and McNamara merely state that the lack of transparency of the ECB and other central banks 'smoothes the bankers' dealings

²¹ See K. Tuori, 'The ECB's quantitative easing programme as a constitutional game changer', in this issue; and A.-L. Högenauer and D. Howarth, 'The democratic deficit and European Central Bank crisis monetary policies', in this issue.

²² D. Curtin, 23 *European Law Journal* (2017), p. 30. Indeed, the ECB has never been given instructions on whether price stability or financial stability is to be prioritised, though it preferred to think of price stability as its primary objective; see J. Ainger, 'Mersch says ECB must put inflation before financial stability', *Bloomberg* (2018), 6 September.

²³ J. Fernández-Albertos, 'The politics of central bank independence', 18 *Annual Review of Political Science* (2015), p. 232; cf. S. Hix, 'Democratizing a macroeconomic union in Europe', in O. Cramme & S.B. Hobolt (eds.), *Democratic Politics in a European Union Under Stress* (Oxford University Press 2014), p. 180-198.

²⁴ E.g., C. Alcidi, A. Giovannini & S. Piedrafita, 'Enhancing the legitimacy of EMU governance', study requested by the European Parliament's Committee on Economic and Monetary Affairs, Brussels (2014). W.H. Buiter, 'Central banks: Powerful, political and unaccountable?', 2 *Journal of the British Academy* (2014), p. 292-298; D. Curtin, 23 *European Law Journal* (2017), p. 44.

²⁵ D. Fromage & R. Ibrido, 'The 'Banking Dialogue' as a model to improve parliamentary involvement in the Monetary Dialogue?', 40 *Journal of European Integration* (2018), p. 295-308.

²⁶ M. Draghi, 'Accounts and accountability', speech given at the Euro50 Group Roundtable on 'Monetary Policy in Times of Turbulence', Frankfurt am Main, 31 March 2015, <https://www.ecb.europa.eu/press/key/date/2015/html/sp150331.en.html>.

²⁷ N. Fraccaroli, A. Giovannini & J-F Jamet, 'The evolution of the ECB's accountability practices during the crisis.' 5 *ECB Economic Bulletin* (2018), p. 47-71.

with one another at the expense of public trust'.²⁸ Similarly, Buiter attributes citizens' negative evaluations to the ECB's non-compliance with standards of democratic governance without elaborating on the underlying mechanism.²⁹ In short, a link between the Bank's standards and trust is implicitly alleged rather than explicitly theorised or tested.

The same applies to two post-crisis reports commissioned by the EP. A first states that '[l]egitimacy exists when the electorate believes that the institution has both the right to exercise the powers that it has been granted and that the institution is the most appropriate one to perform the tasks that it has been given'.³⁰ Such legitimacy, the report proposes, can be created by *substantive* accountability—the possibility of rewards (and sanctions) for good (or bad) behaviour—and/or by *formal* accountability—the provision of information and the justification of actions.³¹ The ECB's independence makes substantive accountability impossible; hence, 'formal accountability becomes crucially important for legitimacy'.³² A second report focuses on the legitimacy of the Economic and Monetary Union (EMU) and proposes 'to improve [the ECB's] political accountability and a set of conditions to reduce negative externalities *so as to address citizens' increasing dissatisfaction and detachment*'.³³ Again, bolstered accountability and transparency are not just advocated as core standards of modern democratic governance; they are also presented as remedies for citizens' dissatisfaction and lack of trust.

The nexus between standards and support—and the mechanism that may link the two—are made particularly explicit in a recent book by former central banker Paul Tucker.³⁴ By legitimacy, Tucker means 'that the public—society as a whole—accepts the authority of institutions of the state, [...] and their right to deploy the state's powers'.³⁵ He argues that citizens consider organisations like central banks legitimate, if their institutional design is compatible with the political values prevalent in society. In Western advanced economies, these values are embedded in mainstream political and democratic theory, and include ideas on citizens' relationship with the state and their political rights.³⁶ Following these values, Tucker argues, we can identify criteria for delegation to independent agencies, including arrangements

²⁸ S. Berman & K.R. McNamara, 'Bank on democracy: Why central banks need public oversight', 78 *Foreign Affairs* (1999), p. 7.

²⁹ W.H. Buiter, 'Alice in Euroland', 37 *Journal of Common Market Studies* (1999), p. 185.

³⁰ A. Sibert, 'Accountability and the ECB', study requested by the European Parliament's Committee on Economic and Monetary Affairs, Brussels (2009), p. 1.

³¹ *Ibid.*, p. i and p. 1.

³² *Ibid.*, p. 3.

³³ C. Alcidi, A. Giovannini & S. Piedrafita, 'Enhancing the legitimacy of EMU governance' (2014), p. 9; italics added.

³⁴ P. Tucker, *Unelected Power* (Princeton University Press, 2018).

³⁵ *Ibid.*, p. 11.

³⁶ *Ibid.*, p. 162.

for sufficient transparency and accountability.³⁷ Compliance with these criteria should, ultimately, lead citizens to accept the organisation's authority. Delegation to central banks can, in principle, be compliant with procedural standards and, thus, be legitimate. Yet, delegation often fails to 'tick all the boxes', especially those of transparency and accountability, where 'nothing short of a revolution is needed.'³⁸ Moreover, Tucker argues, the criteria hinge on citizens agreeing on prevalent values in their societies. Such agreement is an increasingly tenuous assumption to make at the national level, and is even more challenging in the EU's multi-level polity.

Interestingly, the standards-support nexus also features in the ECB's own publications, with most attention paid to transparency. For instance, in a speech in April 2014, President Draghi concluded that increasing the Bank's transparency 'is ultimately the best basis for an effective monetary policy and for maintaining credibility and trust in our institution'.³⁹ In a later opinion piece, Draghi promoted the Bank's new communication strategy by stating that the ECB 'plays its part in building trust by opening up to the public'.⁴⁰

The ECB shared its view on transparency with central bankers from around the world at a conference in 2017, where Christine Graeff, the Bank's General Communications Manager, stated that central bank communication serves '(i) as a means to policy effectiveness and reputation, (ii) to ensure central bank accountability, and (iii) as a two-way dialogue that helps rebuild trust and reinforce public support for central bank independence'.⁴¹ Focusing on accountability, Yves Mersch, one of the ECB's executive board members, traced the increase in citizens' trust back to the Bank's efforts to reduce its 'perceived accountability deficit'.⁴² Similarly, a recent article in the ECB's *Economic Bulletin* concludes that 'accountability is still indispensable to the ECB as a channel to explain its actions to citizens and thereby contribute to public trust'.⁴³

³⁷ Ibid, p. 110-111.

³⁸ Ibid, p. 476.

³⁹ M. Draghi, 'Monetary policy communication in turbulent times', speech given at the conference on 'De Nederlandsche Bank 200 years: Central banking in the next two decades', Amsterdam, 24 April 2014, <https://www.ecb.europa.eu/press/key/date/2014/html/sp140424.en.html>.

⁴⁰ M. Draghi, 'Central bank communication', opinion piece published in *Handelsblatt*, 4 August 2014, <https://www.ecb.europa.eu/press/inter/date/2014/html/sp140804.en.html>.

⁴¹ C. Graeff, 'Opening remarks', ECB Central Bank Communications Conference on 'Communications Challenges for Policy Effectiveness, Accountability and Reputation', Frankfurt, 14 November 2017, https://www.ecb.europa.eu/pub/conferences/html/20171114_communications_challenges_policy_effectiveness.en.html; cf. N. Fraccaroli, A. Giovannini & J-F Jamet, 5 *ECB Economic Bulletin* (2018), fn. 55.

⁴² Y. Mersch, 'Aligning accountability with sovereignty in the European Union: The ECB's experience', speech given at the ECB Legal Conference, Frankfurt am Main, 4 September 2017, <https://www.ecb.europa.eu/press/key/date/2017/html/ecb.sp170904.en.html>.

⁴³ N. Fraccaroli, A. Giovannini & J-F Jamet, 5 *ECB Economic Bulletin* (2018), p. 71.

Benoît Cœuré, another executive board member, also evokes the Bank's compliance with democratic standards to explain the institution's popular support. In a recent speech, he expressed deep concern over the low levels of trust that the Bank suffered after the eurozone crisis, advocating that the ECB communicate to an audience beyond financial market participants, and intensify its dialogue with the EP.⁴⁴ Such strengthened transparency and accountability was, he stated, 'a precondition for rebuilding trust' in the Bank.⁴⁵

In sum, not all contributions on the ECB's accountability and transparency draw a direct link between these democratic standards and the legitimacy of the Bank in the eyes of citizens. Yet, the link is regularly evoked in academic studies, and the standards-support nexus is made even more explicit in the ECB's own communication. For these different observers, the Bank's problem is one of design—and increased accountability and transparency are the key solution.

3. The standards-support nexus: Three underlying assumptions

Underlying the above account of the ECB's 'legitimacy challenge' are three assumptions: 1) citizens must be aware not only of the ECB's existence but also of the Bank's design and reform; 2) procedural democratic standards must be central to citizens' trust in the ECB; 3) citizens must differentiate between the ECB and the EU's wider multi-level system. These assumptions are crucial for any argument linking a reform of the ECB's governance standards to an increase in trust, but they are rarely made explicit, rarely theorised and rarely systematically tested.⁴⁶ This section makes the assumptions explicit and assesses their plausibility.

A. Are citizens aware of the ECB and its design?

If a reform of the ECB's procedural standards is to increase the Bank's acceptance, citizens must be (made) aware of the Bank's existence and reform. Indeed, prior studies of trust in the ECB demonstrate a link between knowledge and trust, in particular during the financial crisis.⁴⁷ This implies that bolstering the ECB's accountability and transparency is only likely to increase trust

⁴⁴ B. Cœuré, 'Central banking in times of complexity', speech given at a conference on the occasion of Sveriges Riksbank's 350th anniversary, Stockholm, 25 May 2018, <https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180525.en.html>.

⁴⁵ Ibid.

⁴⁶ For exceptions see M. Ehrmann, M. Soudan & L. Stracca, 115 *Scandinavian Journal of Economics* (2013); K. Kalthenthaler, C.J. Anderson & W.J. Miller, 48 *Journal of Common Market Studies* (2010); C.A.B. van der Cruijssen & S.C.W. Eijffinger, 'From actual to perceived transparency: The case of the European Central Bank', 31 *Journal of Economic Psychology* (2010), p. 388-399; R. Rohrschneider, 'The democracy deficit and mass support for an EU-wide government', 46 *American Journal of Political Science* (2002), p. 463-475.

⁴⁷ M. Ehrmann, M. Soudan & L. Stracca, 115 *Scandinavian Journal of Economics* (2013); see also: K. Kalthenthaler, C.J. Anderson & W.J. Miller, 48 *Journal of Common Market Studies* (2010).

if the reform becomes known by ‘distrustful’ citizens. Precisely these citizens are less likely to know the Bank and the EU’s political system. Hence, without a parallel effort to increase mass knowledge and understanding of the ECB, reforming procedural standards may further increase the trust of the ‘knowing’ while leaving levels of distrust unaffected. As concluded succinctly in one of the few studies exploring whether transparency translates into trust: ‘[f]or central banks simply to become more transparent is not sufficient. A clear communication strategy is important too’.⁴⁸

At the most basic level, awareness of the Bank is high. As shown by Figure 2, citizens have known of the ECB since its creation. The percentage of respondents having heard of the ECB has never been lower than 70 percent and has climbed up into the high 80s since the financial crisis.

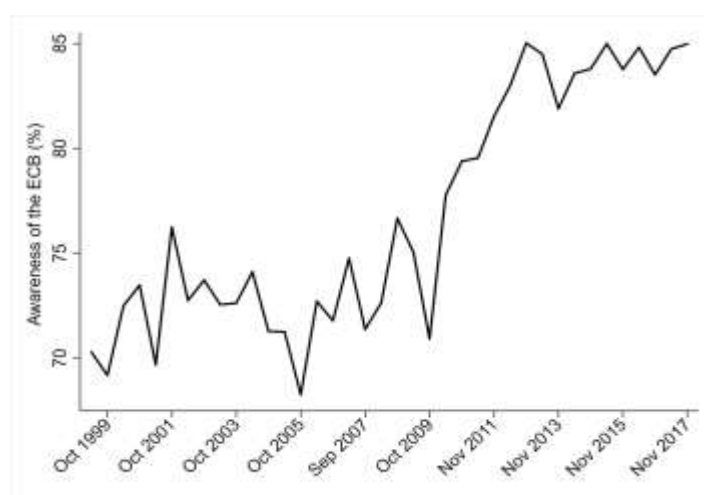


Figure 2: Awareness of the ECB

Source: Eurobarometer

Yet, if reformed procedural standards are to increase trust, citizens need to be more than aware of the Bank’s existence; they need to know the ECB’s design itself. This seems a demanding assumption, but, for two reasons, it may still hold.

First, even if the mass public knows little about the EU and the ECB, citizens may understand their domestic political institutions and the underlying configuration of values. We know that citizens are prone to reason ‘by proxy’: when evaluating the EU’s political system, they rely on ‘what they know and think about domestic politics’.⁴⁹ Indeed, research on EU public opinion shows that citizens’ satisfaction with democracy ‘at home’ also bolsters support for European

⁴⁸ C.A.B. van der Crujssen & S.C.W. Eijffinger, 31 *Journal of Economic Psychology* (2010), p. 398.

⁴⁹ C.J. Anderson, ‘When in doubt use proxies: Attitudes towards domestic politics and support for European integration’, 31 *Comparative Political Studies* (1998), p. 576.

integration.⁵⁰ The financial crisis has heightened citizens' awareness of central banking and the potential consequences of monetary decisions for their welfare. Citizens may, therefore, be more aware of the ECB now, and more likely to assess the Bank against domestic standards. In short, for the nexus between reformed standards and increased trust to work, the Bank's reform needs to be known and to feed on the support of national domestic institutions and their underlying value-base.

Closely related, if trust—and, ultimately, acceptance—are linked to awareness and knowledge, and if we assume that citizens' assessment of politics, policies and institutions is, at least partially, cued by political elites,⁵¹ then domestic elites could contribute to building the nexus between the ECB's reformed standards and increased support. Targeted communication could make citizens aware not only of the Bank's existence but of its changing design. The Bank of England's public engagement strategy illustrates such an attempt⁵²—although the actual impact of this strategy for the Bank's acceptance is yet to be empirically demonstrated.

In sum, if a change in the ECB's standards is, ultimately, to improve the ECB's acceptance, citizens need to be aware of the ECB's existence and design. A large percentage of Europe's citizens are aware of the former. In addition, reasoning by proxy and cueing by national elites may further increase citizens' ability to evaluate reformed standards of governance. Yet, if knowledge is a pre-condition, then letting the Bank speak 'to the people'⁵³ through a targeted communication 'offensive' may bolster trust more effectively than making the ECB more accountable and transparent about its decision-making and inner workings.

B. Are democratic standards central for citizens' trust in the ECB?

Citizens are likely to evaluate the ECB based on one of three motivations: the legality of what the Bank does; the output that the Bank produces; and the Bank's 'compliance' with established standards of democratic governance—accountability and transparency central among them. In short, citizens will ask whether the Bank's activities are right, benefit them, and uphold shared democratic standards. If a reform of the ECB truly is to increase legitimacy, citizens need not only be aware of the ECB's existence, design and reform; they also need to put procedural

⁵⁰ Ibid, p. 569-601; S.B. Hobolt, 'Citizens' satisfaction with democracy in the European Union', 50 *Journal of Common Market Studies* (2012), p. 88-105.

⁵¹ L. Hooghe & G. Marks, 'Calculation, community and cues: Public opinion on European integration', 6 *European Union Politics* (2005), p. 419-443.

⁵² A.G. Haldane, 'Climbing the public engagement ladder', speech given at the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA) on 6 March 2018.

⁵³ V.A. Schmidt, 'Speaking to the markets or to the people? A discursive institutionalist analysis of the EU's sovereign debt crisis', 16 *The British Journal of Politics and International Relations* (2014), p. 188-209.

standards at the core of the institution's evaluation and assessment—and positively so. This assumption seems demanding, especially under conditions of the crisis.

First, should increasing accountability and transparency 'fix' citizens' current lack of trust in the Bank, one would need to assume with confidence that citizens a) actually put democratic standards at the heart of their evaluation, and b) trust majoritarian, representative institutions more than non-majoritarian, technocratic institutions. Only if citizens trust and support national parliaments or the EP more than central banks, courts or the European Commission can we hope that more accountability of the latter to the former bolsters support.

Several empirical studies do, indeed, demonstrate such a connection. An analysis of attitudes towards the ECB shows that citizens who feel that their voices count in the EU are significantly more likely to trust the Bank;⁵⁴ an internet-based Dutch household survey demonstrates that the ECB's efforts towards more transparency do not consistently translate into higher 'transparency perceptions', but that where transparency perceptions are higher, so is trust in the ECB;⁵⁵ and an analysis of the EU's 'democratic deficit' and mass support concludes that feeling under-represented leads to lower levels of support for the EU—independent of utilitarian motivations.⁵⁶

Figure 3 shows the over-time development of trust across three types of institutions: the ECB, the EP and national parliaments. The picture is nuanced: excepting a 'trust spike' enjoyed by the EP in 2009, and a 'trust drop' suffered by the ECB at the same time, the two institutions show fairly similar levels of net trust. Net trust has been on the rise recently, but has not climbed back to late 1990s levels. Interestingly, citizens trust national parliaments least, and consistently so over time (though there is considerable cross-country variation which this figure cannot show). This development has two implications for the standards-support nexus: democratic representative institutions do not, a priori, enjoy greater trust than the ECB, and trust in EU institutions is increasingly unlikely to 'feed' on satisfaction with national democracy.

⁵⁴ K. Kalthenthaler, C.J. Anderson & W.J. Miller, 48 *Journal of Common Market Studies* (2010), p. 1275.

⁵⁵ C.A.B. van der Crujssen & S.C.W. Eijffinger, 31 *Journal of Economic Psychology* (2010), p. 394-397.

⁵⁶ R. Rohrschneider, 46 *American Journal of Political Science* (2002), p. 463-475.

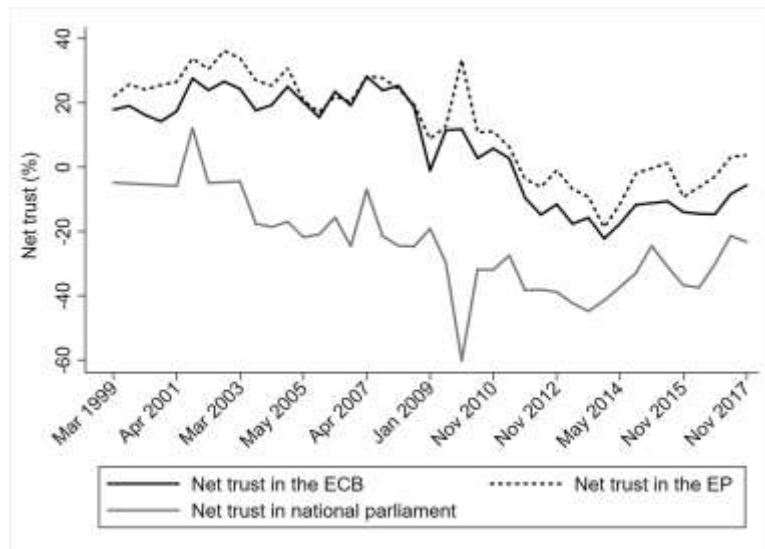


Figure 3: Net levels of trust in the ECB, EP and national parliaments

Source: Eurobarometer

Figure 4 calls for further caution regarding transparency and accountability as ‘trust fixes’. The figure shows net trust in the ECB and its two account-holders, the European Court of Justice (ECJ; now Court of Justice of the EU) and the EP. Excepting the EP’s 2009 ‘trust hike’, the Court has consistently been the most trusted institution since 2003. This suggests that accountability and transparency are not the only drivers of citizens’ trust.

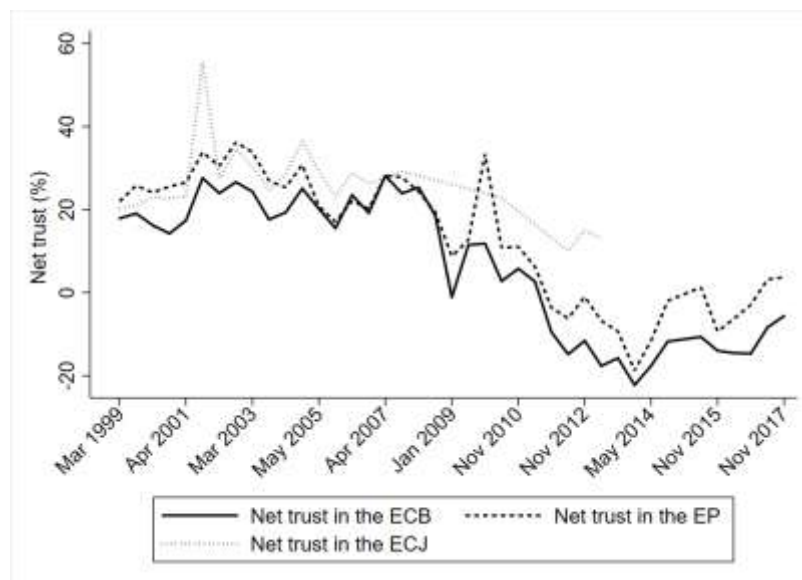


Figure 4: Net levels of trust in the ECB, EP and ECJ

Source: Eurobarometer

Overall, the above suggests that compliance with democratic standards is not the only motivation for trusting an institution; instead, citizens draw on alternative or additional criteria. Even if citizens are aware of a reform, and even if they assess such a reform positively, any attempt to improve trust in Europe's Bank should, therefore, combine 'trust-building' measures. Indeed, the literature suggests that citizens are not (only) motivated by procedural standards of democratic input and 'throughput' but, equally or more importantly, by an institution's legality and output.

Legality refers to formal standards and implies that conduct and decision-making play out according to rules, laws and procedures.⁵⁷ Legality also implies that actors avoid overstepping their formal competences. The ECB's formal competences are granted in the Treaties on European Union (TEU) and on the Functioning of the European Union (TFEU). During the eurozone crisis the ECB operated in a grey zone with regard to legality, exemplified, inter alia, by the 2014/2015 challenge of its OMTs before the Court. Where legality is a pre-condition for trust, compensating an overstepped mandate with more transparency and accountability will be difficult; some observers even suggest scaling back legal powers to shore up legitimacy.⁵⁸

Yet, when operating at the forefront of policy and attention, it was the lack of formal competences that drove the ECB into a legal grey zone to stem ever greater danger to the eurozone. This piece is not the place to (re-)evaluate the ECB's performance during the crisis years and subsequent bail-outs; suffice it to say here that citizens, especially those in countries most directly concerned by the eurozone crisis, are likely to base acceptance not only—maybe not mainly—on procedural standards but on the ECB's performance.⁵⁹ This expectation derives from utilitarian theories of support; it has also been shown to work empirically: various analyses conclude that trust in the ECB is shaped significantly by how citizens judge their own individual and Europe's wider economic situation.⁶⁰ This is not to say that economic performance across the eurozone can be equated with the ECB's performance; yet 'boundedly rational' citizens seem to treat macroeconomic indicators as proxies for the ECB's performance.⁶¹

⁵⁷ J.H.H. Weiler, 'Problems of legitimacy in post 1992 Europe', 46 *Aussenwirtschaft* 46 (1991), p. 411-437.

⁵⁸ W.H. Buiter, 2 *Journal of the British Academy* (2014), p. 269-303.

⁵⁹ F.W. Scharpf, 'Political legitimacy in a non-optimal currency area', in O. Cramme & S. B. Hobolt (eds.), *Democratic Politics in a European Union Under Stress* (Oxford University Press, 2014), p. 19-47.

⁶⁰ K. Kalthenthaler, C. J. Anderson & W. J. Miller, 48 *Journal of Common Market Studies* (2010), p. 1277; E. Farvaque. M. Azmat Hayat & A. Mihailov, 'Who supports the ECB? Evidence from Eurobarometer survey data', 40 *World Economy* (2017), p. 654-677; F. Roth, L. Jonung & F. Nowak-Lehmann, 'Crisis and public support for the euro, 1990-2014', 54 *Journal of Common Market Studies* (2016), p. 944-960; S. Wälti, 'Trust no more? The impact of the crisis on citizens' trust in central banks', 31 *Journal of International Money and Finance* (2012), p. 593-605.

⁶¹ D. Bursian and S. Fürth, 'Trust me! I am a European Central Banker', 47 *Journal of Money, Credit and Banking* (2015), p. 1503-1530.

In addition, if citizens distrusted the Bank mainly because of its ‘non-compliance’, we should see relatively stable trust patterns across countries: after all, the Bank’s design does not vary across countries. Yet, this is not what Figure 5 shows. Instead, we see substantial variation in trust by country, with clear patterns dividing the ‘bailout South’ and Ireland from the ‘donor North’ during the eurozone crisis. These results may not surprise, but they matter for the standards-support nexus: increasing the ECB’s accountability to a political institution like the EP that represents citizens EU-wide, and making the Bank’s decision-making more transparent would simply target the wrong source of non-acceptance.

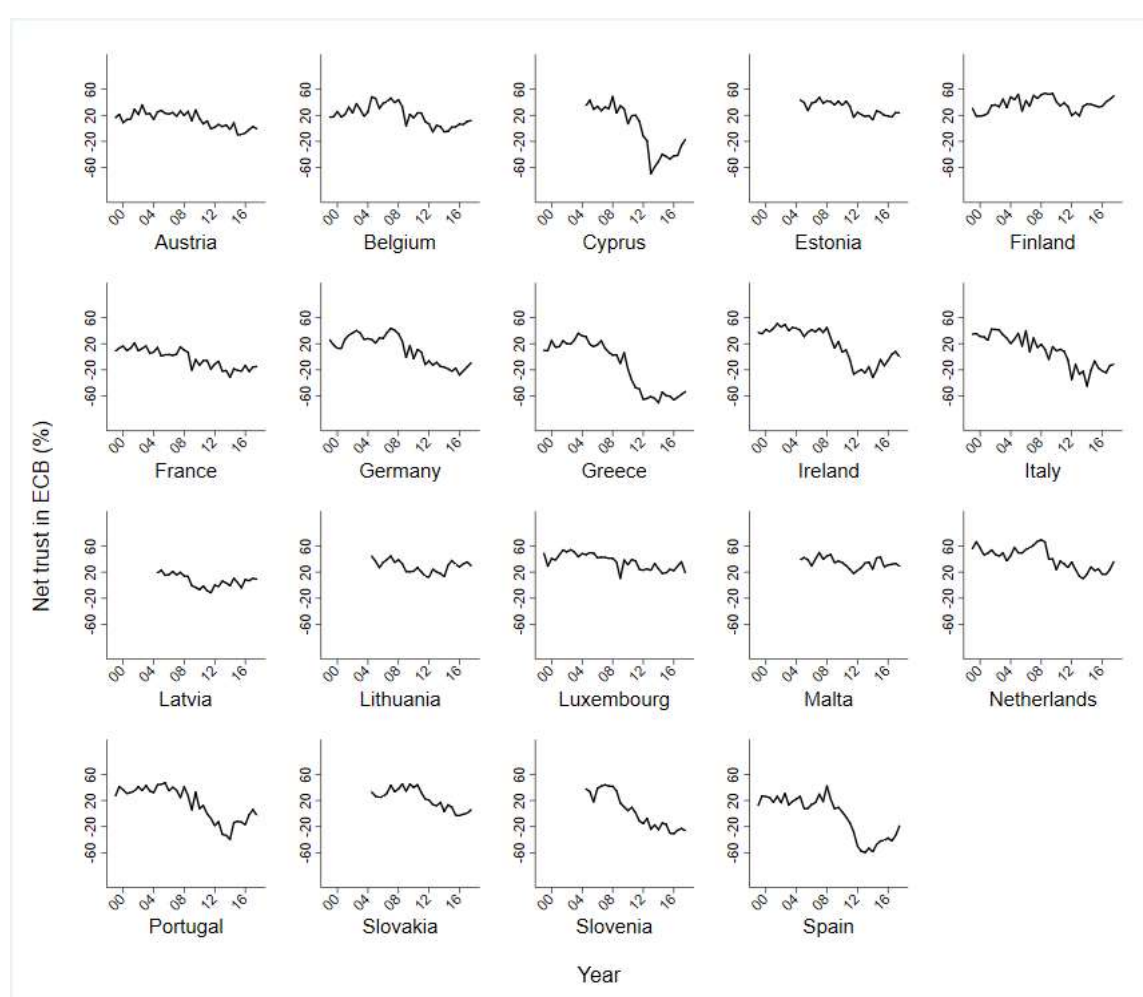


Figure 5: Net levels of trust in the ECB, by country over time

Source: Eurobarometer

This descriptive illustration shows variation in citizens’ trust driven by country and by crisis. For the standards-support nexus this calls for caution: (non-)acceptance may be based less on democratic standards than on perceptions of legality and performance. Under such conditions,

increasing the ECB's accountability and transparency may well fulfil a desirable normative role, yet, it is unlikely to shore up mass acceptance.

C. Do citizens differentiate between the ECB and the EU's wider multi-level system?

Finally, should reformed procedural standards have the desired effect of strengthening the ECB's legitimacy, a further condition must be met: citizens must accept the political system in which the Bank sits, because the procedural standards are modelled on established democratic values and rely on established political institutions and processes—national and/or supranational. Even if citizens *do* reason by proxy and are cued by elites, this assumption only holds under two conditions: citizens trust domestic political institutions (and do not just transfer knowledge across levels of governance) and/or domestic elites succeed in effectively persuading (and not just informing) citizens about the desirability and effectiveness of making the ECB more transparent and accountable to representative institutions. 'Fixing' distrust with bolstered democratic standards is a solution immanent to the political system in which the ECB sits.

Figure 4 showed that national parliaments rank lowest on trust overall; Figure 6 demonstrates that net trust in the EU and the European Commission—the institution epitomising supranational governance—has fallen in line with, or even steeper than, trust in the ECB. Falling levels of trust in the Bank during the eurozone crisis have been explained through a combination of 1) sharply deteriorating economic conditions, 2) an overall fall of trust in the EU's political system, and 3) an association between the ECB and the troubled financial market.⁶² This explanation, too, questions the possibility of 'fixing' the Bank's trust challenge through institutional solutions immanent to a political system 'under attack' on both normative and utilitarian grounds.

⁶² M. Ehrmann, M. Soudan & L. Stracca, 115 *Scandinavian Journal of Economics* (2013), p. 804-805.

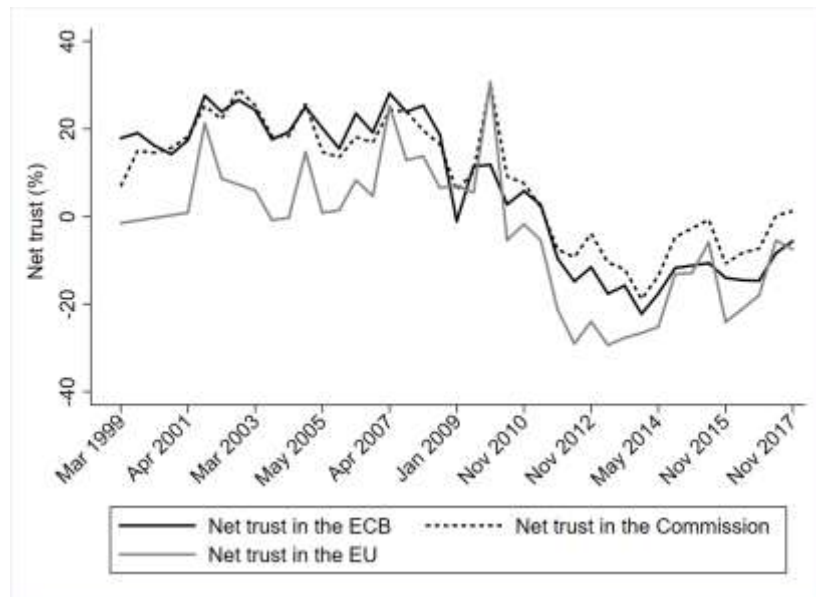


Figure 6: Net levels of trust in the ECB, European Commission and EU

Source: Eurobarometer

Indeed, assuming that citizens respond to the ECB's reformed procedural standards in isolation from the wider socio-political climate seems overly optimistic. When looking at modern democratic politics, we see governance in crisis: trust in elites, experts and established representative institutions is declining.⁶³ If the national political context is unfavourable for trust, the ECB's environment is even more challenging. Supranational governance is one step further removed but increasingly visible, suffers from upwards blame-shifting by national governments,⁶⁴ and sits at the core of a political backlash against 'outside rule'.⁶⁵ Assuming that citizens, under these conditions, will evaluate an ECB reform either positively or in isolation, or bestow the ECB with trust lavished on the wider supranational system, seems highly optimistic.

In sum, drawing on procedural remedies to improve the ECB's acceptance requires citizens who trust the political system in which these remedies are anchored. Under conditions of fundamental distrust in political systems and engrained blame-shifting from the national to the supranational level it will be near-impossible to strengthen the Bank's legitimacy in the eyes of the citizens by choosing procedural solutions that are immanent to the very system that is under attack.

⁶³ E.g., K. Armingeon & K. Guthmann, 'Democracy in crisis? The declining support for national democracy in European countries, 2007-2011', 53 *European Journal of Political Research* (2014), p. 423-442.

⁶⁴ S.B. Hobolt & J. Tilley, *Blaming Europe? Responsibility and Accountability in the European Union* (Oxford University Press, 2014).

⁶⁵ E.g., J. Curtice, 'Why leave won the UK's referendum', 55 *Journal of Common Market Studies* (2017), p. 19-37.

4. The implication: No silver bullet

So far, we have argued that the assumptions behind the standards-support nexus—particularly the two thicker ones—are highly demanding and likely to be tenuous. Hence, relying on procedural standards immanent to a political system ‘under attack’ is unlikely to have the desired effect. Yet, our conclusions may be starker still: shoring up accountability and transparency could even have negative implications for the Bank’s legitimacy.

To be sure, we do not contest that the standards serve a key role in democratic systems, particularly by ‘disciplining’ bodies that are exempted from electoral accountability. Constitutional thought emphasises the importance of accountability—and to some extent transparency—in protecting citizens from the arbitrary exercise of political power.⁶⁶ By ‘exposing’ behaviour, accountability and transparency help detect and prevent misuse and abuse of powers, including corruption and patronage.⁶⁷ Moreover, they facilitate organisational learning. Explanations and the possibility of consequences enable and motivate organisations ‘to search for more intelligent ways of organising their business’.⁶⁸ Finally, transparency is believed to make monetary policy more effective.⁶⁹

Yet, there are trade-offs. First of all, accountability is time-consuming and requires resource investment by the account-giver. Especially in times of crisis, investing resources in justification rather than in developing fast policy responses may affect the Bank’s performance negatively—while, as argued above, performance may be central to citizens’ evaluation. Enhancing provisions for explanation may lead to accountability overloads—including demands on organisations’ limited time and energy, contradictory expectations, and performance expectations that cannot be met.⁷⁰ Closely related, increasing control and the possibility of sanctions can depress the account-giver’s motivation⁷¹ as well as innovation and entrepreneurialism in an organisation.⁷² Again, this may have negative consequences for the Bank’s performance and adaptive capacity.

⁶⁶ E.g., P. Mair, ‘Ruling the void? The hollowing of Western democracy’, 42 *New Left Review* (2006), p. 29.

⁶⁷ See C. Koop, ‘Non-majoritarian institutions: A challenge for liberal democracy?’ in F. Müller-Rommel and F. Casal Bértoa (eds), *Party Politics and Democracy in Europe: Essays in Honour of Peter Mair* (Routledge, 2015), p. 232-233.

⁶⁸ M. Bovens, 13 *European Law Journal* (2007), p. 464.

⁶⁹ P.M. Geraats, ‘Central bank transparency’, 112 *Economic Journal* (2002), p. F532–F565; A.S. Blinder, M. Ehrmann, M. Fratzscher, J. de Haan & D.-J. Jansen, ‘Central bank communication and monetary policy: A survey of theory and evidence’, 46 *Journal of Economic Literature* (2008), p. 940.

⁷⁰ M. Bovens, T. Schillemans & P. ‘t Hart, ‘Does public accountability work? An assessment tool’, 86 *Public Administration* (2007), p. 227-229.

⁷¹ J. Mansbridge, ‘A “selection model” of political representation’ 17 *Journal of Political Philosophy* (2009), p. 369-398.

⁷² M. Power, *The Audit Society: Rituals of Verification* (Oxford University Press, 1997).

Most importantly, shoring up the requirements of justification may signal to citizens that the Bank's original technocratic competence can no longer be trusted, and that tighter control is needed to focus the actor on the public good.⁷³ As argued above, accountability may, indeed, institutionalise an office holder's public good orientation; yet changing accountability *during* a crisis, may programme citizens to distrust the Bank at a time when the institution needs trust most.

Like accountability, transparency consumes time and resources and can, therefore, redirect focus from problem-solving in times of crisis to public engagement, political communication and procedural change around access. Greater transparency may slow down policy speed and depress actors' motivation—which, in turn, challenges the ECB's performance that is central to citizens' support.

Moreover, recent research finds that the link between transparency and legitimacy is far from straightforward: under most conditions, closed-door decisions justified *ex post* generate more legitimacy than open decision-making.⁷⁴ Potentially, openness does not guarantee effective communication with an audience.⁷⁵ For the ECB, increasing transparency may be challenging. The ECB can, voluntarily, make its procedures more accessible and engage in public communication; President Draghi's press conferences and the publication of non-attributed accounts of Governing Council meetings are examples. However, the communication is not controlled by the Bank alone, and—given the media's particular incentives⁷⁶—coverage based on newly available information may well lead to negative press which, in turn, can damage the organisation's reputation.⁷⁷ Similarly, a recent study finds that transparency only has a positive effect if 'cues' are offered by mediators: there is no direct effect of transparency on legitimacy.⁷⁸

This would be detrimental for the standards-support nexus which partially relies on citizens' elite-mediated awareness of the Bank and its reforms. Indeed, recent work on trust in the ECB

⁷³ Cf. W.G. Resh, *Rethinking the Administrative Presidency: Trust, Intellectual Capital and Appointee-Careerist Relations in the George W. Bush Administration and Beyond* (Johns Hopkins University Press, 2015).

⁷⁴ J. de Fine Licht, D. Naurin, P. Esaiasson & M. Gilljam, 'When does transparency generate legitimacy? Experimenting on a context-bound relationship', 27 *Governance* (2014), p. 111-134.

⁷⁵ O. O'Neill, *A Question of Trust: A Question of Trust: The BBC Reith Lectures 2002* (Cambridge University Press, 2002).

⁷⁶ F.R. Baumgartner & B. Jones, *Agendas and Instability in American Politics* (2nd edition, University of Chicago Press, 2009), ch. 6.

⁷⁷ D. Curtin & A.J. Meijer, 'Does transparency strengthen legitimacy? A critical analysis of European Union policy documents', 11 *Information Policy* (2006), p. 118; cf. R. Hazell, G. Bourke & B. Worthy, 'Open house? Freedom of information and its impact on the UK Parliament', 90 *Public Administration* (2012), p. 901-921.

⁷⁸ Indeed, a recent study of the effect of transparency on citizens' policy perceptions finds that transparency can have a positive effect, but only if 'transparency cues' are offered by mediators; there is no direct effect of transparency. See J. de Fine Licht, 'Transparency actually: How transparency affects public perceptions of political decision-making', 6 *European Political Science Review* (2014), p. 309-330.

in Germany finds that knowledge about the Bank is positively related to trust, but more intense use of the media—especially newspapers—has a significantly *negative* influence.⁷⁹ Moreover, we know that in politicised contexts and divided societies, a lack of transparency may fulfil a key role: sheltered from publicity, posturing and plebiscitory demagoguery should become rarer and actors should enjoy more leeway to communicate freely and to offer generous concessions.⁸⁰ In a context like the eurozone, where policy-cleavages run deep between EU member states, transparency may, very well, pitch countries, negotiators and solutions against each other, in fuller view of political coverage.

⁷⁹ B. Hayo & E. Neuenkirch, 'The German public and its trust in the ECB: The role of knowledge and information search', 47 *Journal of International Money and Finance* (2014), p. 286-303.

⁸⁰ E.g., S. Chambers, 'Behind closed doors: Publicity, secrecy, and the quality of deliberation', 12 *Journal of Political Philosophy* (2004), p. 389-410; D. Stasavage, 'Open-door or closed-door? Transparency in domestic and international bargaining', 58 *International Organization* (2004), p. 667-703.

5. Conclusion

Since its creation in 1998, Europe's Bank has been subjected to political and normative critique. This paper focused on one prominent argument in this debate: the proposition that the ECB's accountability and transparency and the ECB's legitimacy are linked. We made the assumptions underlying this standards-support nexus explicit and engaged them on their plausibility. A reform of the ECB's design, we suggested, would only have the desired effect of greater public acceptance if citizens 1) are aware of the ECB and its design; 2) prioritise democratic standards over alternative motivations for acceptance; and 3) are able to differentiate between the ECB and the EU's multi-level system. Drawing from the established literature on support for European integration, extant empirical studies of trust in the ECB, and descriptive Eurobarometer data, we concluded that the standards-support nexus is unlikely to bear out empirically. A reform of the Bank's accountability and transparency would mainly work on citizens who know—and trust—the Bank already; would need to be combined with legality and performance as other important feeders of citizens' (dis)trust; and would only 'fix' trust if citizens supported the wider political system within which the reform plays out. What more, increasing the ECB's accountability and transparency in a time of crisis and heightened politicisation could adversely affect the Bank's policy-performance and public image—and, hence, risk driving trust down rather than up. We do not put the two standards' normative desirability into question. However, we do caution against assuming too easily that institutional design 'boosts' legitimacy, and against assuming that such a boost comes without trade-offs for the very legitimacy it is meant to engineer. Against the backdrop of the EU's ongoing legitimacy challenge, future research should, therefore, fully theorise the causal mechanism underlying the standards-support nexus, and systematically analyse the actual impact of an institution's reform on the institution's acceptance.